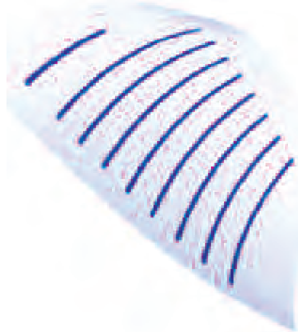
ROUND-UP

MARICOPA COUNTY MEDICAL SOCIETY • VOLUME 55 • MARCH 2009



ON THE PRESIDENTIAL DOCKET: TECHNOLOGICAL HEALTHCARE

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PRESIDENT'S PAGE

Dr. Riveland explains "The Demise on the Horizon" of primary care physicians.

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A Broader Perspective: Socially responsible investing is on the rise. Mike McCann educates us on the nuances of this trend.

COMMUNITY PROGRAMS

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SOCIALLY RESPONSIBLE INVESTING ON THE RISE

By Mike McCann, CFP®, AIF®

Socially Responsible Investing (SRI) has been touted under a variety of monikers – ethical, sustainable, double bottom line, green.

It has both passionate advocates and ardent critics.

The big debate is whether *socially* responsible investing is (or can be) *financially* responsible investing.

Many investors and advisors believe the answer depends upon whether the investment strategy is how well balanced and thought out. Regardless, the SRI trend is definitely on the rise.

According to Social Investment Forum's (SIF) 2007 Report on Socially Responsible Investing Trends, SRI encompasses an estimated $2.71 trillion out of $25.1 trillion in the U.S. investment marketplace. That's nearly 11 percent.

This approach to investing has grown dramatically in the past few years, according to data from SIF:

- From 2005 to 2007, social investing grew by 18 percent.
- As of 2007, there were 260 socially screened mutual fund products in the United States, with assets of $201.8 billion. By contrast, there were just 55 SRI funds in 1995 with $12 billion in assets.
- More than half of the 100 largest publicly-traded U.S. companies now report on their sustainability efforts.

It's important to maintain a diversified portfolio, especially in challenging economic times. Yet, diversification means more than simply dispersing one's "eggs" into many baskets. The goal is to balance risk and return within a portfolio of investments. The best way to reach that balance is through *strategic asset allocation*, which combines investments from multiple asset classes - such as small caps, large caps, international and real estate - into one portfolio.

Socially responsible investments are not a separate asset class. Rather, they provide an alternative way to invest within existing asset classes. With careful planning, SRI funds can be incorporated into one's portfolio to address short- and long-term financial needs, as well as personal beliefs and society concerns.

What is SRI?

The idea first began to surface in the 1960s, mainly focusing on environmental and social issues. In the 1990s, the concept of *sustainability* began to take shape - an approach to economic and social development that addressed the long-term impact of companies, governments and individuals on the communities in which they live, work and conduct business.

Issues that routinely factor into the socially responsible equation today include environmental policy, corporate governance, human rights policies, employee diversity, charitable giving, product quality and community relations. In fact, the latest iteration of social investing is being touted under a new acronym - ESG - to address environmental, social and governance factors.

In light of the current financial crisis, proponents see SRI as an antidote to a short-sighted, short-term approach to investing. They say the approach encourages more sustainable business practices and is a better way to evaluate investments and manage risk.

"SRI is not charity," said Peter Kinder, president of KLD Research & Analytics, Inc., an independent investment research firm providing management tools to professionals integrating environmental, social and governance factors (ESG) into their investment decisions.

"Investors cannot accurately assess risk without studying how companies treat their workers, customers, community and the environment," he said. "If there's a lesson to be learned from current events, it's that looking beyond this quarter's results is a necessity."

What about performance?

Recent analysis suggests that SRI can perform on par with other investments.

An October 2007 joint report by Mercer and the United Nations, "Demystifiying Responsible Investment Performance," concluded that investors incorporating ESG factors within their investments don't necessarily have to give up returns.

The report is a review of 20 peer-reviewed academic studies that apply traditional finance to ESG factors, and span a variety of research methods, regional samples and investment approaches. Of the studies reviewed, 10 had found a positive relationship between ESG factors and performance; findings were neutral in seven studies and negative in three.

Social indexes developed and tracked by KLD performed just at or below par with Standard & Poor (S&P) benchmarks in the past year, as of December 31, 2008. One-year performance for KLD's 10 domestic indexes was nearly identical to the S&P benchmarks. The same is true for its eight global indexes. However, like most indexes during the past year, returns are in the red by double-digits for all.

Many of KLD's indexes are relatively new, so it's difficult to evaluate performance from a long-term, big-picture view. This is true of most SRI data. That said, one bright spot for SRI advocates is the granddaddy Domini 400 Social Index, which was up 8.4 percent since its 1990 inception versus a 7.8 percent gain for the S&P 500. Yet, looking at those KLD indexes with three- to five-year histories, most underperformed their benchmarks (including the Domini 400). Again, all were in negative territory, as were their S&P benchmarks.

When evaluating social funds and indexes, it's important to understand what drives performance. Different screens can result in different performance.

In the past, socially responsible investing meant shunning certain types of companies, such as tobacco and alcohol or weapons and oil. But SRI analysis should run deeper than simply *excluding* certain investments. Newer funds and social investment strategies are applying a positive screening approach by identifying companies to *include* - companies that can add value as an investment, such as those with positive environmental, social and governance practices.

A report by International Finance Corporation, the United Nations Global Compact, and the Swiss government - *Who Cares Wins 2008* - urges the financial industry to advance efforts to integrate ESG issues into mainstream investment decision-making and ownership practices. "ESG integration is about investors and companies taking a longer-term view, acknowledging the full spectrum of future risks and opportunities," according to the report.

Small Steps

Converting one's entire investment portfolio to SRI offerings, while diversifying across a broad range of asset classes, remains challenging. But it is becoming more viable as the number of socially screened funds grows. New offerings are providing investors with additional choices – social funds that perform on par with traditional funds and can complement a well-balanced investment portfolio.

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When managing a diversified portfolio, periodic rebalancing is necessary to adjust for the outperformance or underperformance of certain assets classes and industries, as well as for changes in one's personal circumstances.

While rebalancing, if an investor or financial advisor is considering one of two funds that are essentially identical in make-up and performance - the only difference being that one is socially responsible and the other is not - it may make sense to go with the socially responsible option if that is where the investor's personal priorities lie.

Socially responsible investing does require compromise. By definition, it eliminates certain sectors of the economy from one's portfolio; thus, the investor takes on additional risk of underperforming the market. Yet, with careful planning, an SRI strategy can address both personal financial needs and one's societal concerns.

Learn Before You Leap

Regardless of what investment strategy one applies, the key to long-term success is having a solid understanding of how that strategy works. Academic research and industry analysis on SRI has become more accessible to investors in recent years. If you would like to learn more, talk with your advisor or go online at the following sites.

- **www.socialinvest.org**
This is the website of Social Investment Forum (SIF), the only national membership association dedicated to advancing the concept, practice and growth of SRI.

- **www.sristudies.org**
This compendium of major academic studies on SRI is a project of the Center for Responsible Business at the Haas School of Business, University of California, Berkeley.

To learn more about other more traditional investment strategies, talk with your advisor or go online at the following sites.

- **www.moneyaz.com/investments.htm**
Part of the Perspective Financial Services website, this section provides an in-depth explanation of strategic asset allocation based on Modern Portfolio Theory.

- **www.dfaus.com/philosophy**
The founders of Dimensional pioneered asset class investing. At this website, the company provides an overview of market efficiency and asset class investing.

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is an investment advisor and founder of *Perspective Financial Services, LLC*, a preferred vendor for the Maricopa County Medical Society. He offers a 20 percent members-only discount to MCMS physicians. To learn more, visit his website at ***www.MoneyAZ.com/MCMS.htm***

A Certified Financial Planner (CFP) and Accredited Investment Fiduciary (AIF), Mike has worked in the financial services industry since 1991. He advises on a wide range of portfolios with a diverse group of clientele and speaks to groups on a variety of topics, including charitable planned giving, asset allocation, retirement planning and tax management. He earned his Bachelor's degree in finance from Arizona State University.

Perspective Financial is an independent, fee-only, Registered Investment Advisory firm that provides clients with broad-based financial planning and investment management services. The firm has been recognized in *Financial Advisor* magazine's "Top RIA Survey" ranking for the past two years. Perspective also has been listed by the *Phoenix Business Journal* among the top 25 independent investment advisory firms in Arizona.

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